

J A P A N · E C O N O M I C · I N S T I T U T E

J E I

R E P O R T

A Two-Part Report: A and B

NO. 29B
July 31, 1992

	LDP Declares Victory In Upper House Elections	1
	Stock Market Bears Shrug Off Tokyo's Concerns	4
IN THIS ISSUE:	Monetary Moves Show Divergent Paths In Europe, America And Japan	6
	House Panel Weighs Bill To Tax Foreign Firms	7
	Notes: NTT Procurement	9

LDP Declares Victory In Upper House Elections

By winning more than half of the 127 seats at stake in the July 26 House of Councillors elections the ruling Liberal Democratic Party partially recovered from the crushing defeat it suffered in the upper house contests three years ago. Party leaders were ebullient that candidates backed by the LDP had captured 69 seats. The ruling party's total in this chamber now is 108 seats, still 19 shy of a controlling majority and six short of the 114 seats held prior to the elections.

The loss of seats apparently mattered less to LDP leaders than the margin of victory. Prior to the upper house contests LDP strategists had maintained that a win of 64 seats or more effectively would set the stage for the ruling party to regain control of the House of Councillors in the 1995 elections (see *JEI Report* No. 28B, July 24, 1992). The party had not fielded enough candidates for that to be a possibility this time. A gain of more than half of the contested seats also represented, according to LDP leaders, the public's endorsement of the controversial United Nations peacekeeping support bill and, in turn, voters' desire to retain the LDP at the helm.

Not all analysts concurred, noting that the electorate's behavior indicated neither readiness for dramatic upheaval nor abundant satisfaction with the LDP's leadership. An historic low voter turnout as well as the surprisingly good performance of a fledgling LDP breakaway party suggest that the Japanese people remain disaffected with ruling party politics and certain policies, these commentators say. With Japan's economy in a slump and the global order in transition, Japanese voters apparently preferred to play it safe and support candidates of the party with the most

governing experience. An alternative view is that the opposition parties offered no clear leadership or advantages for backing their candidates. Nor did any one party field enough candidates to gain a majority.

The LDP's 69 seats include 50 won in prefectural district contests and 19 gained under the proportional representation system. In upper house contests Japanese voters cast two ballots: one for an individual representing a particular constituency and one for a political party and its slate of candidates. Each party is awarded seats proportional to the number of votes it receives; no more than 50 seats are filled with candidates from the lists.

Since the ruling party still does not control the upper house, the LDP presumably will have to continue to work with Japan's two centrist parties — Komeito, the second-largest opposition party, and the Democratic Socialist Party, the fourth-largest — to affect enactment of nonmoney legislation. Of the 23 candidates fielded by Komeito, 14 won. Voters chose four of the DSP's 20 nominees. The LDP, Komeito and the DSP now enjoy a combined total of 139 seats in the House of Councillors. This potential coalition would be large enough to overcome any resistance that the Social Democratic Party of Japan, the largest opposition group, might try to orchestrate with other opposition groups and minor parties.

Were it not for the ruling party's willingness to negotiate with Komeito and the DSP, the LDP-led government never would have been able to secure enactment of the precedent-setting legislation that authorizes the overseas dispatch of Japanese military personnel to support U.N.-sponsored peacekeeping operations (see *JEI Report No. 23B*, June 19, 1992). The SDPJ, which throughout Diet debate argued vociferously that the legislation exceeds the limitations of Japan's "peace constitution," tried during the campaign to tap into the Japanese people's still strong pacifist sentiments. Due largely to the Socialists' focus on this issue, many commentators maintained that the peacekeeping support bill — more than Japan's sluggish economy — was the central issue in the elections.

While SDPJ-supported candidates in Hiroshima and Okinawa, two areas that experienced acutely the ravages of World War II, fared well in the July 26 elections, the SDPJ was not as successful in the rest of the country. Only 22 of 43 candidates fielded by the largest opposition party won, less than half the number of positions the SDPJ captured in 1989, but the same number of seats that the SDPJ had up for grabs this time. Therefore, its upper house membership remains at 69. The July 26 contests gave the Japan Communist Party six seats, bringing its upper house tally to 11, or three less than its preelection strength. The tiny United Social Democratic Party, which fielded nine candidates, did not win any seats, leaving just one USDP councillor.

Rengo, the political arm of the Japan Trade Union Confederation and a close ally of the SDPJ, perhaps was the biggest loser; none of the 22 candidates fielded by the party, which had touted itself as "adhesive" for an anti-LDP coalition, was successful (see Table). Some analysts suggested that the reason Rengo fared so poorly is precisely because the opposition parties could not unite on the peacekeeping support bill.

In addition to seeing their victory as an endorsement for the peacekeeping support bill, LDP leaders extended this approval to include backing for a more engaged diplomacy. "We frequently hear ... that Japan always shows up too little, too late when there's a world crisis," former Prime Minister Toshiki Kaifu was quoted as saying. "Now the [Japanese] people agree it is time for us to be more active." If opposition at the grass roots to the peacekeeping support bill had been strong, the LDP would have incurred significant losses, which supports one of the party's contentions. Political observers were less sanguine about reading the election returns as an indication of a more internationalist mood among the electorate or as a ringing endorsement of the LDP. Voter turnout was the lowest in Japan's postwar history, drawing only about 50 percent of the eligible electorate as compared with 65 percent in 1989. A variety of nonpolitical factors may have kept much of the

July 26, 1992 Upper House Election Results

	<u>Prefectural Constituencies</u>		<u>National Constituencies</u>		<u>Total Won</u>	<u>Held Over</u>	<u>Total Strength</u>
Liberal Democratic Party	50	(51)	19	(24)	69	39	108 (114)
Social Democratic Party of Japan	12	(13)	10	(9)	22	47	69 (69)
Komeito	6	(3)	8	(7)	14	10	24 (20)
Japan Communist Party	2	(4)	4	(5)	6	5	11 (14)
Democratic Socialist Party	1	(2)	2	(3)	4	3	7 (8)
Rengo	0	(1)	—	(0)	0	12	12 (13)
Japan New Party	—	(—)	4	(—)	4	0	4 (—)
Others	6	(1)	2	(2)	8	9	17 (12)

Note: Incumbents in parentheses.

Source: *The Japan Times*, July 28, 1992.

electorate at home — hot, muggy weather plus the start of the summer Olympics, but commentators also suggested that voters simply were not impressed with what they were being offered.

Although three years have passed since the Recruit Co., Ltd. influence-peddling scandal, one factor that contributed to the LDP's defeat in the 1989 upper house elections, the ruling party as recently as February still was plagued by scandals (see *JEI Report* No. 7B, February 21, 1992). It has yet to enact promised legislation that would reform Japan's money-centered political system. The opposition parties, however, remain unable to provide a credible leadership alternative. Some political analysts said the spectacle of politicians from the SDPJ and JCP engaging in a slow-walking type of filibuster to protest Diet action on the peacekeeping support bill did more to tarnish than burnish the Socialists' image as potential leaders. Moreover, unlike in the United States where economic downturns usually hurt incumbent politicians, in Japan when the economy slumps voters tend to be even more wary of political change, commentators have said. "While people say we need a drastic change, in politics and the economy, they reach for stability," Komeito secretary general Yuichi Ichikawa said in an effort to explain a phenomenon that is puzzling for Americans and others who believe discontent requires action.

The surprisingly strong performance by a small party formed only two months ago by Morihiro Hosokawa, a former LDP-backed member of the House of Councillors and ex-governor of Kumamoto prefecture, may support the view that the Japanese electorate, while apparently leery of change, is not completely satisfied with the status quo. Mr. Hosokawa's Japan New Party, which is dedicated to reforming Japanese politics, fielded 16 candidates and won four seats. Prior to the elections many observers had predicted that the fledgling party would not win any seats.

Although the upper house election results satisfied the LDP, not everyone within the ruling party benefited equally. No doubt the outcome fortified the position of Prime Minister Kiichi Miyazawa over the near term and is a relief to the former finance minister, who has been plagued with domestic political problems since entering office in November 1991. However, the politicians that really reaped gains from the recent elections are former Prime Minister Noboru Takeshita and other senior members of the faction that bears his name. The Takeshita faction fielded 34 candidates; 30 won seats. That boosted the faction's strength in the Diet to 108, of which 68 are in the lower house and 40 in the upper house. Mr. Miyazawa's faction, in comparison, put up 11 candidates, of whom seven were elected. This puts the prime minister's group in third place in the LDP factional hierarchy, with 61 lower house representatives and 13 upper house members for a total of 74. The number-two position is occupied by the faction headed by former Minister of Foreign Affairs Hiroshi Mitsuzuka, which has 75 members (58 in the lower house and 17 in the upper house).

Some observers suggested, therefore, that Mr. Miyazawa probably will face increasing pressure from the Takeshita faction to yield the party's top spot and, by extension, the premiership. News reports July 28 of the former prime minister's connection to a scandal involving his faction's alleged ties to an organized crime group through dealings with Tokyo Sagawa Kyubin Co., Ltd. (see *JEI Report* No. 7B, February 21, 1992) may foil any designs, however, that Mr. Takeshita or members of his faction may have on the premiership.

Barbara Wanner

Stock Market Bears Shrug Off Tokyo's Concerns

Alarmed by the continued fall of domestic stock prices just ahead of important national upper house elections, Prime Minister Kiichi Miyazawa and his cabinet tried in late July to break the market's downward slide with a promise of greater fiscal stimulus. Investors ignored not only this pledge but a subsequent discount rate cut, criticizing these moves as tardy and insufficient. This negative reaction has left observers wondering where the stock market's bottom lies now that the government's moves to halt the sell-off have been ignored.

Since hitting a postwar high of 38,915.87 at the end of 1989, the Nikkei average of 225 stocks listed on the Tokyo Stock Exchange has suffered from a weakening economy, stock brokerage scandals and the deflation of the late 1980s' speculative boom. Since dropping through the psychologically important barrier of 20,000 earlier this year (see *JEI Report* No. 11B, March 20, 1992), the Nikkei has been drifting fitfully lower. After falling into the low 15,000s in mid-June, the market staged a rally, rising from 15,741.27 on June 29 to 17,201.73 on July 13. This level proved unsustainable, however, in the face of lower expectations for Japanese corporate profits and heightened concerns about overseas political and economic developments, including tensions between the United Nations and Iraq. The German central bank's decision on July 20 to hike its discount rate to 8.75 percent seemed to dim the outlook for an immediate easing of monetary policy by the Bank of Japan. The Nikkei plummeted by more than 660 points that day, closing at 15,884.48. When the market hit 15,541.95 two days later, Prime Minister Miyazawa decided to act.

With half of the Diet's upper house seats at stake in the July 26 elections, Mr. Miyazawa realized that a plunging stock market could undercut his ruling Liberal Democratic Party's claim as the party of stability and economic growth. The prime minister announced July 23 that he would convene an emergency cabinet meeting the evening of the following day to explore responses to the stock market's woes. Investors had been waiting for some sign of government concern and action. They welcomed Mr. Miyazawa's announcement by pushing the Nikkei up almost 550 points at the close of July 23 trading.

The anticipatory boost was not sustained; the Friday session closed at 15,549.79, as if to say that expectations of supportive government action were low. That estimation proved on target since the Friday evening cabinet meeting produced almost nothing new. The Miyazawa administration reiterated its commitment, made just before the early July summit of the leaders of the world's major industrialized democracies, to pass a large supplemental budget. The cabinet also agreed to initiate legislative action on the budget in September instead of October, as originally envisioned. Beyond this, details about the stimulative package remain hazy; even its total size is undecided. (Speculation puts the extra budget at ¥6 trillion to ¥8 trillion or \$44.4 billion to \$59.3 billion at ¥135=\$1.00.)

The LDP's solid showing in the July 26 upper house elections and the Bank of Japan's July 27 action to shave half a percentage point from its discount rate (see articles in this issue) provided the market with a temporary boost on the first day of the week; the market rose to 15,974.31 in the morning session. It quickly became apparent that there was no real support, however, and the market ended the day at 15,373.34 for a 124.45-point loss. The week provided a new 1992 low (see Graph),